Greek & European Economy Observatory

12th Newsletter on the economic impact of the Covid-19 pandemic

European Developments (05-12/06)

"But for the Single Market to work as an engine of convergence, European companies should compete on similar terms. For our joint benefit, European spending should aim to re-establish a level playing field and support those most affected by the crisis."
Christine Lagarde, President of the ECB

"Coordination, in particular within the euro zone, is key to ensure that we avoid divergence and the build-up of our imbalances. Protecting the single currency is as critical as protecting the single market."
Mario Centeno, President of the Eurogroup

"We will need to have a much more nationally and sectorially differentiated approach to fiscal policy. I think nobody is so stupid as to propose 'just be back under 3% by year X'. That would be probably the largest mistake."
Thomas Wieser, Former President of the Eurogroup Working Group

European Commission

- The Commission and the EIB approved financing of total worth €100 m. for BioNTech, a pharmaceutical company developing a vaccine for COVID-19.
- Furthermore, the Commission announced that it has granted a total amount of €166 m. to 34 innovative companies battling the pandemic.
- The Commission also approved state aid measures of 6 member states, of total value €11.869 bn.

National measures (05-12/06)

France: The Minister of Finance announced a €15 bn support plan for the aerospace industry.

Greece: The Government issued a 10-year bond, raising €3 bn priced at 1.55%.

USA: The FED eased the terms for loans provided under the $600 bn facility for SMEs, by increasing the maximum loan size and prolonging the repayment period.

Ukraine: The Central Bank cut its benchmark rate from 8% to 6%, which represents a record low for the country.

International Monetary Fund

- From 05/06 to 11/06 the IMF has approved the requests of 4 countries for financial support through the Rapid Credit Facility, Rapid Financing Instrument and Catastrophe Containment and Relief Trust. Total amount approved: 555.15 m. SDR ($669.36 m.)

OPEC

- OPEC and Russia agreed unanimously to extend by one month, to end-July, the record high reduction of petrol production by 10 m. barrels per day. Saudi Arabia and Russia urged all members to comply with the decisions of the organisation.

Breakdown of measures[6] (16/03 – 12/06)

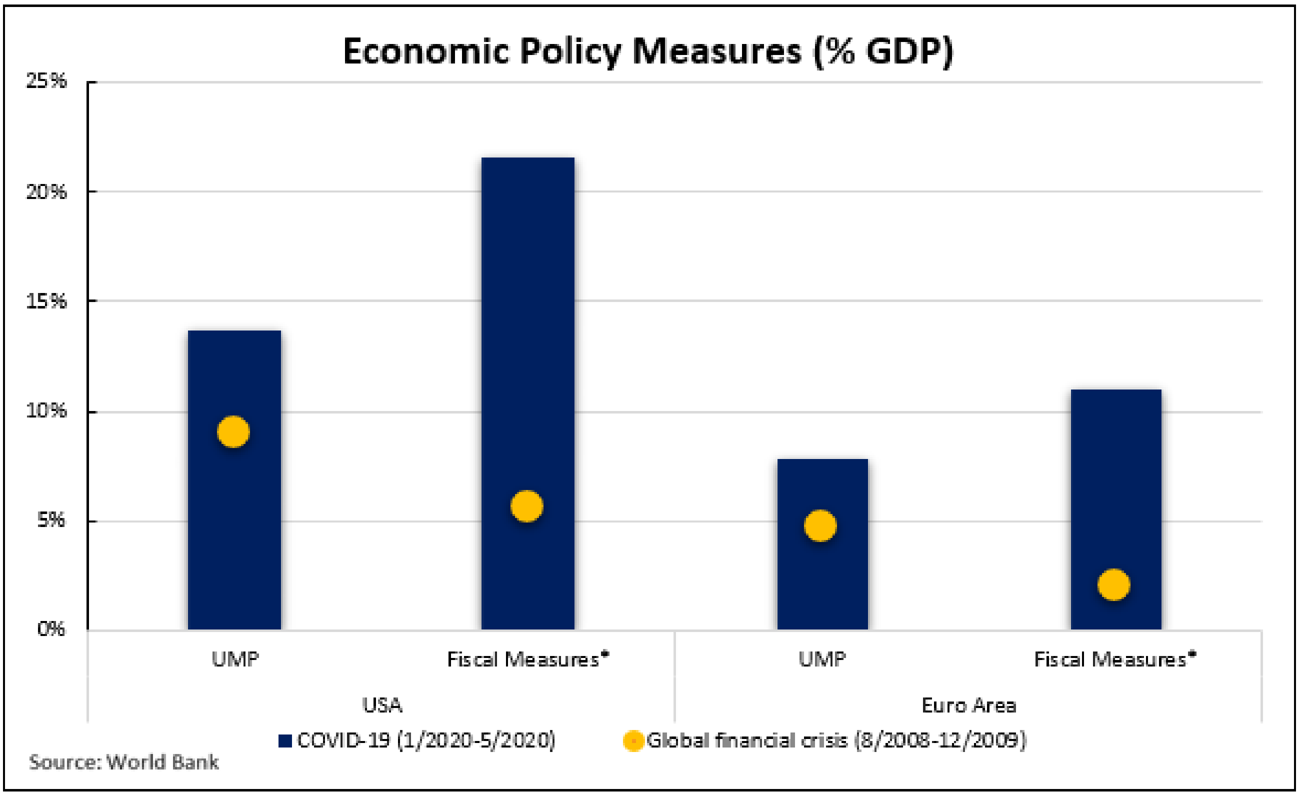
	EU	France	Italy	Germany	Netherlands	Austria	Denmark	Spain	Greece	Portugal	Ireland
A. Fiscal Measures[1]	€65 bn	€110 bn[2]	€52.5 bn	€286 bn	€33.1 bn	€12.2 bn	120.9 bn DKK	€31.2 bn	€24 bn[3]	€1 bn[1]	≈ €7.3 bn[1]
B. Monetary Measures (Total)	€2.6 tr.[4]	-	-	-	-	-	Bank credit facility increased	-	-	-	-
C. Loans/Guarantees	€305 bn	€315 bn	€530 bn	€819.7 bn	Min. €12.1 bn	€9 bn	70 bn DKK	€112.4 bn	Not Specified	€6.8 bn	€5 bn[1]
D. Tax Deferrals	-	Not specified	€27.5 bn	€500 bn	€36 bn	Up to €10 bn	208 bn DKK	Min. €14 bn	Not Specified	€7.9 bn	Not Specified
E. Labour Market Measures[5]	SURE: Fund to provide loans to member states targeted to employment schemes. Total value: €100 bn	Income support subsidy of 70% for workers in partial unemployment status	Temporary prohibition of redundancies and prolongation of unemployment benefit	Further financing of the existing income support scheme for the unemployed	Wage subsidy of up to 90% (for businesses reporting revenue reduction of at least 20%)	Progressive wage subsidy based on the size of salary of up to 90% of working time	Wage subsidy of up to 75% (for businesses reporting revenue reduction of at least 20%)	Wage subsidy of 70%[6]	Measures include the continuation of the special allowance to workers, a wage subsidisation scheme and the extension of the unemployment benefit	Wage subsidy of up to 75% (for businesses reporting revenue reduction of at least 40%)	Unemployment benefit increase and wage subsidy of up to 70% (capped at €410/week)

[1] The total value of these measures is greater as the cost of several measures has not been estimated yet.
[2] Includes tax deferrals that are not specified separately.
[3] Includes tax deferrals and loans/guarantees.
[4] Includes the Pandemic Emergency Purchase Programme (PEPP), totalling €750 bn, the additional asset purchases of €120 bn within the framework of the Asset Purchase Programme (APP), additional liquidity of €1 tr. provided to banks through the TLTRO III programme and capital relief of €120 bn due to easing of regulations. These figures represent the total value of assets and bank liquidity that will have been added to ECB's balance sheet by the end of the respective programmes. For further details on the evolution of ECB's asset purchases, see the diagram of Weekly Net Asset Purchases below.
[5] The amount of these measures – if specified – is included in the fiscal measures.
[6] Main source: IMF Policy Tracker. Other sources: OECD Country Policy Tracker & official government announcements.

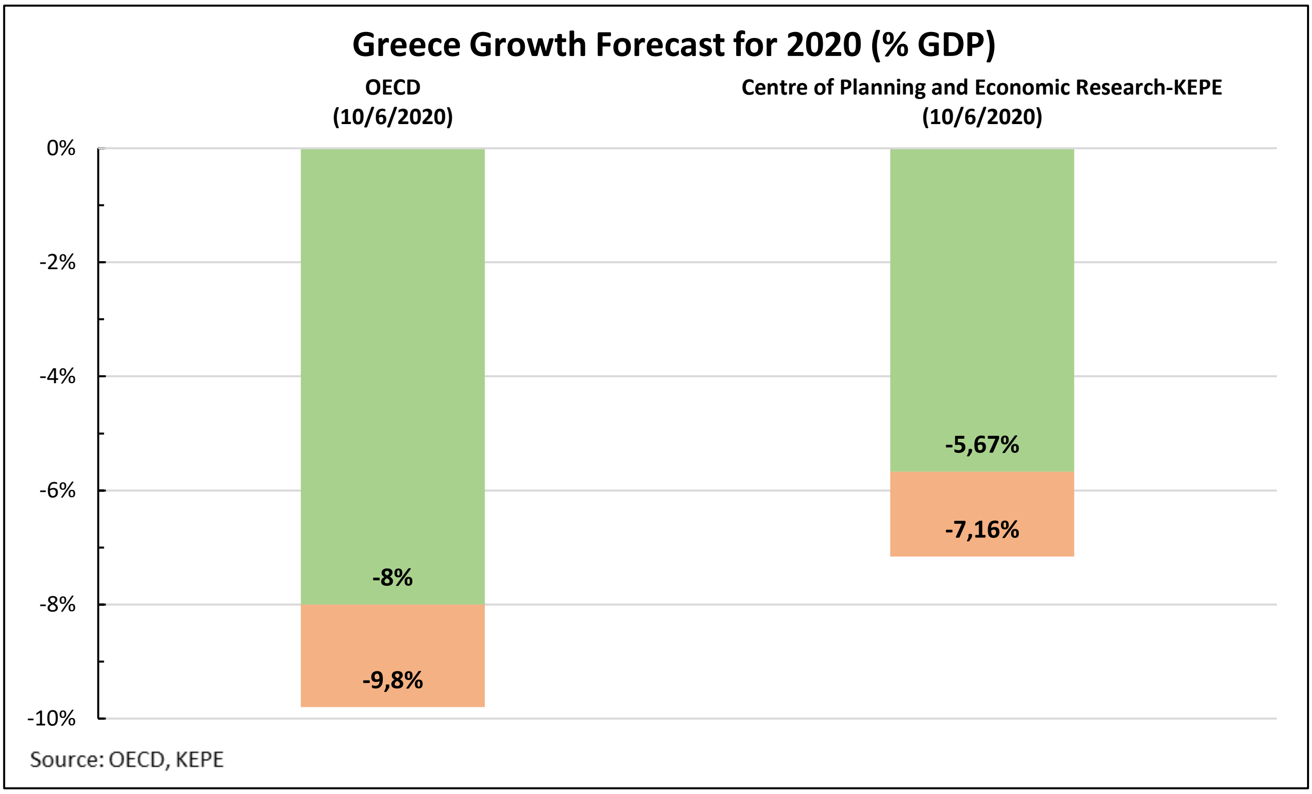
	USA	Canada	Australia	UK	Japan	Russia	India	Brazil
A. Fiscal Measures[7]	≈$1.7 tr.	120 bn CAD	133.8 bn AUD	£132.5 bn	¥148.9 tr.[8]	500 bn RUB[8]	9.45 tr. INR[8]	≈ 580 bn BRL[8]
B. Monetary Measures (Total)	Unlimited	Not Specified	Min. 90 bn AUD	Min. £645 bn	Unlimited	Not Specified	Min. 3.7 tr. INR	≈ 1.2 tr. BRL
B1. Asset Purchases	Not Specified	Not Specified	Not Specified	Min. £645 bn	Not Specified	Not Specified	Not specified	-
B2. Bank Liquidity	Not Specified	Not Specified	Min. 90 bn AUD	Min. £190 bn	Not Specified	500 bn RUB	Min. 8 tr. INR	≈ 1.2 tr. BRL
C. Loans/Guarantees	$1.242 tr.	65 bn CAD	35 bn AUD	£330 bn[9]	Min. ¥2.1 tr.	Not Specified	-	≈ 253 bn BRL
D. Tax Deferrals	$561 bn	85 bn CAD	-	Min. £3.1 bn	Not Specified	Not Specified	Not Specified	Not Specified
E. Labour Market Measures[10]	$250 bn (Unemployment benefit increase)	Allowance of 2000 CAD/month to workers whose income was impacted & wage subsidy of 75% for affected businesses	Wage subsidy of 1500 AUD per employee per fortnight	Wage subsidy of 80%	-	Reduction of social security contributions for SMEs & unemployment benefit increase	Wage increase for those working in state employment schemes for the agricultural sector	Allowance of $120 for the unemployed and informally employed

[7] Does not include funds allocated for tax deferrals and loans/guarantees.
[8] It includes the funds allocated for tax deferrals and/or loans/guarantees, as the exact breakdown of the package is not specified.
[9] Supported by the BoE
[10] The amount of these measures – if specified – is included in the fiscal measures.

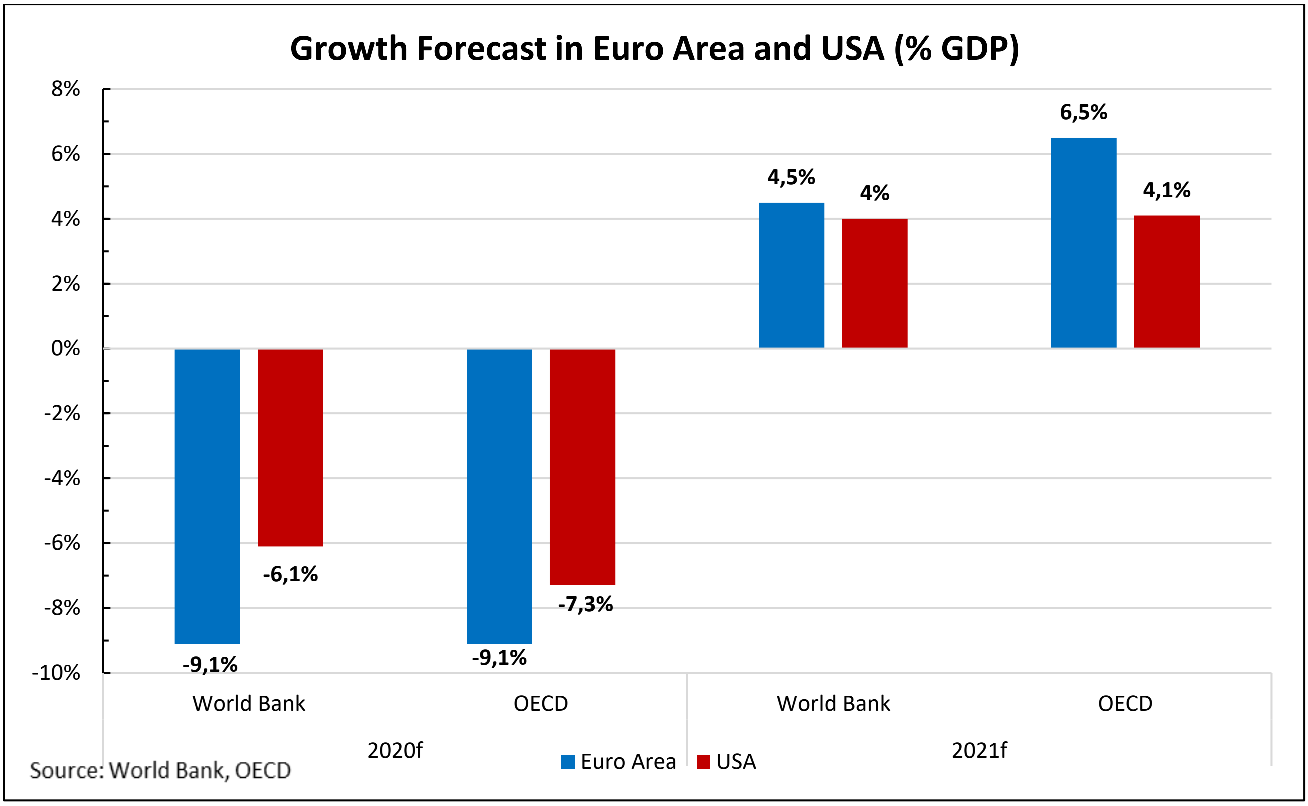
Recent Economic Developments (08-11/06)



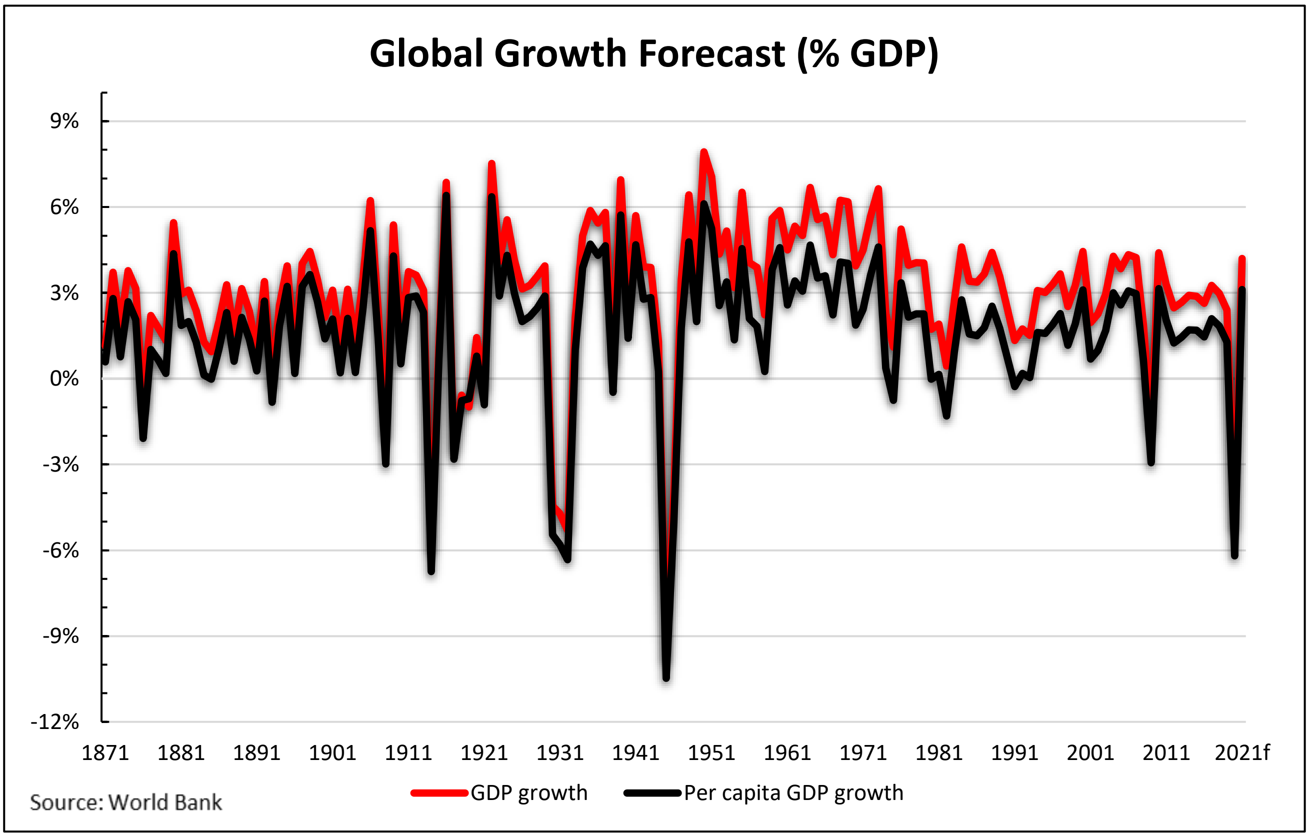
*Fiscal measures either planned or under consideration as of May 28, 2020.
In the wake of the COVID-19 outbreak, both the Fed and the ECB have ramped up the use of unconventional monetary instruments, to levels well beyond those seen during the Global Financial Crisis of 2008.
A wide range of fiscal support has also been introduced to offset the impact of the pandemic on demand and employment.



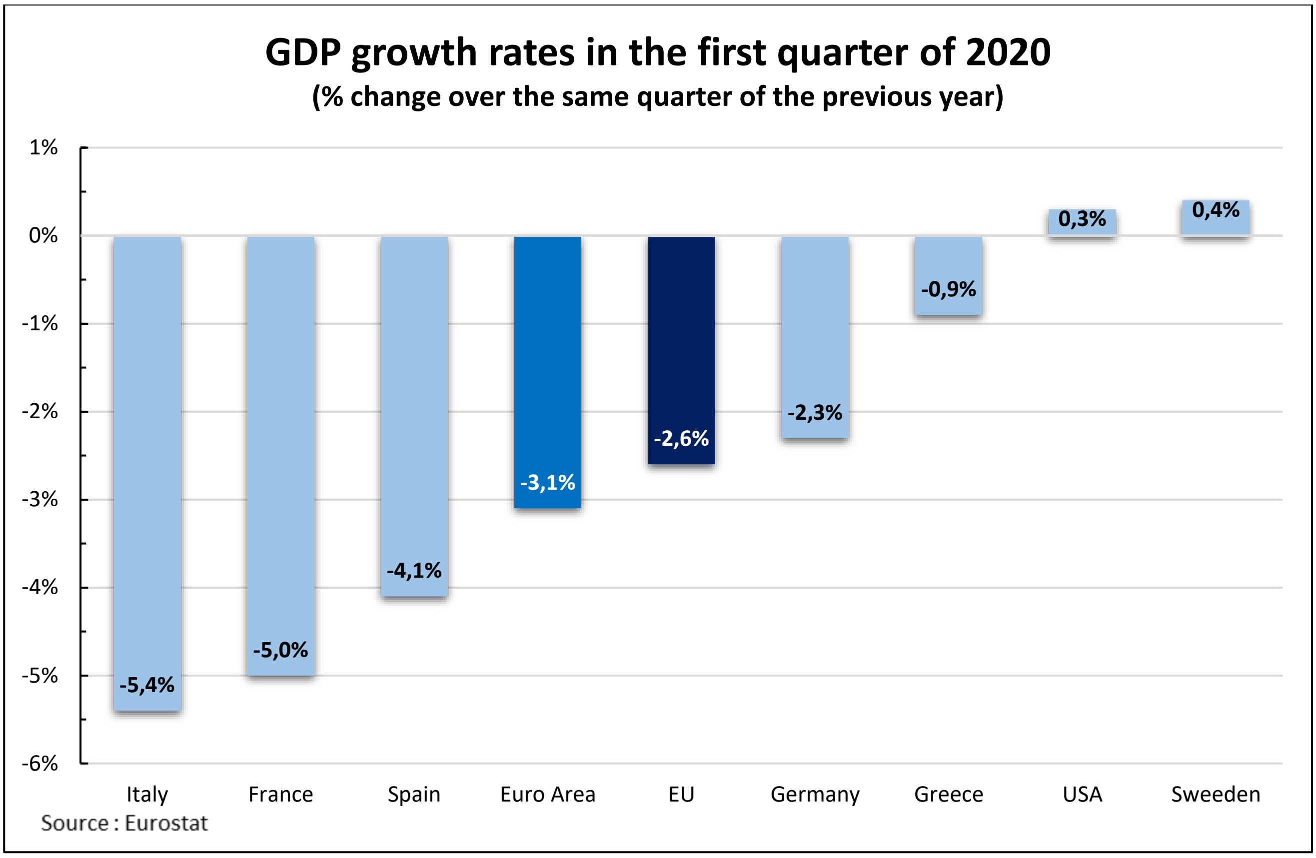
Current projections of the OECD (10/6) estimate that the Greek GDP for 2020 will contract between 8% (good scenario) and 9.8% (adverse scenario). According to the Greek Centre of Planning and Economic Research (KEPE) (10/6) the GDP decrease will range from -5.67% (good scenario) to -7.16% (adverse scenario).



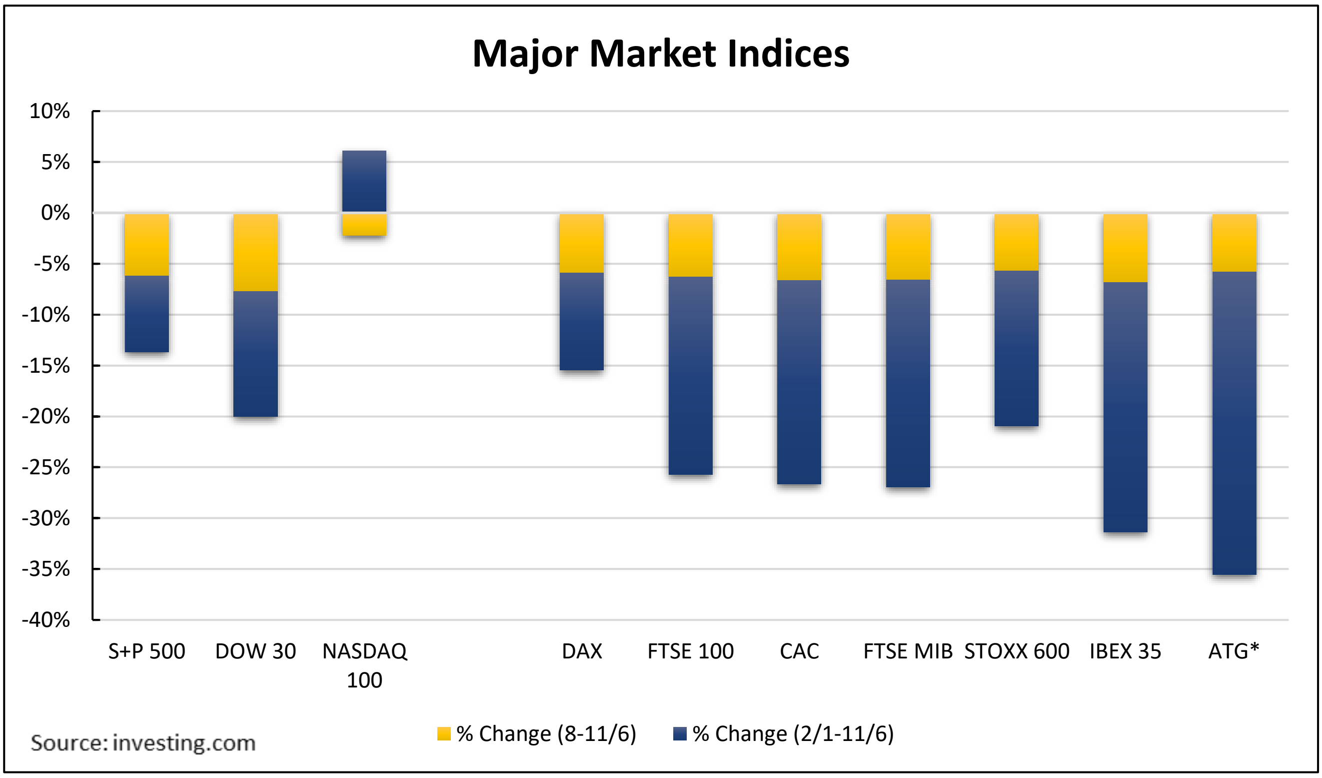
According to the [World Bank](9/6) and [OECD](10/6) GDP Growth Forecasts for the Euro Area and the US economy, the Euro Area is expected to experience a deeper recession than the US in 2020, but is also expected to record a higher growth rate for 2021.



According to the World Bank (9/6), ”current projections imply that the COVID-19 global recession will be the fourth deepest since 1870 and the most severe since the end of World War II.”

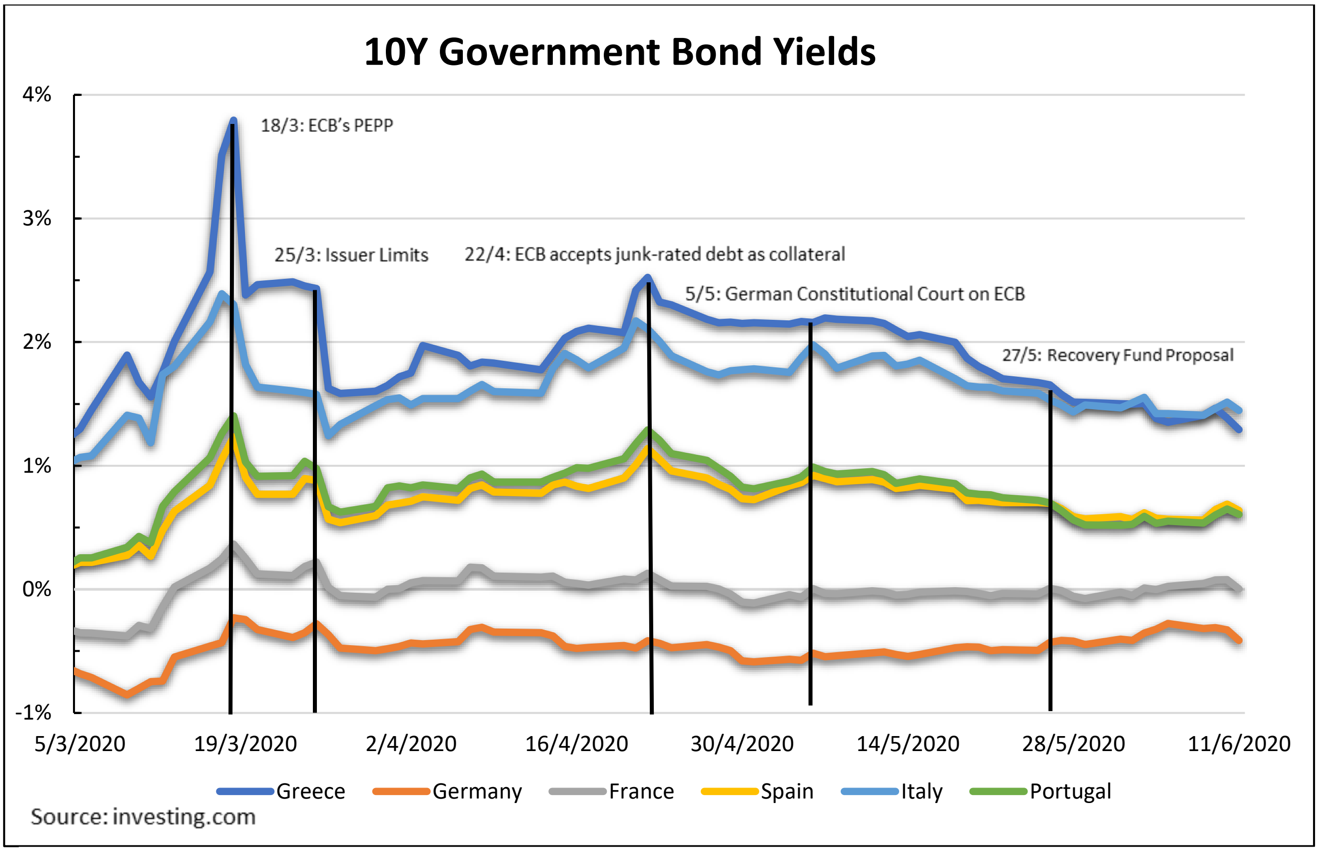


According to Eurostat (9/6), GDP contracted by 3.1% in the Euro area and by 2.6% in the EU during the first quarter of 2020, compared to the first quarter of 2019. Among Member States included in this chart, Sweden recorded the highest growth rate, with the highest decline observed in Italy.

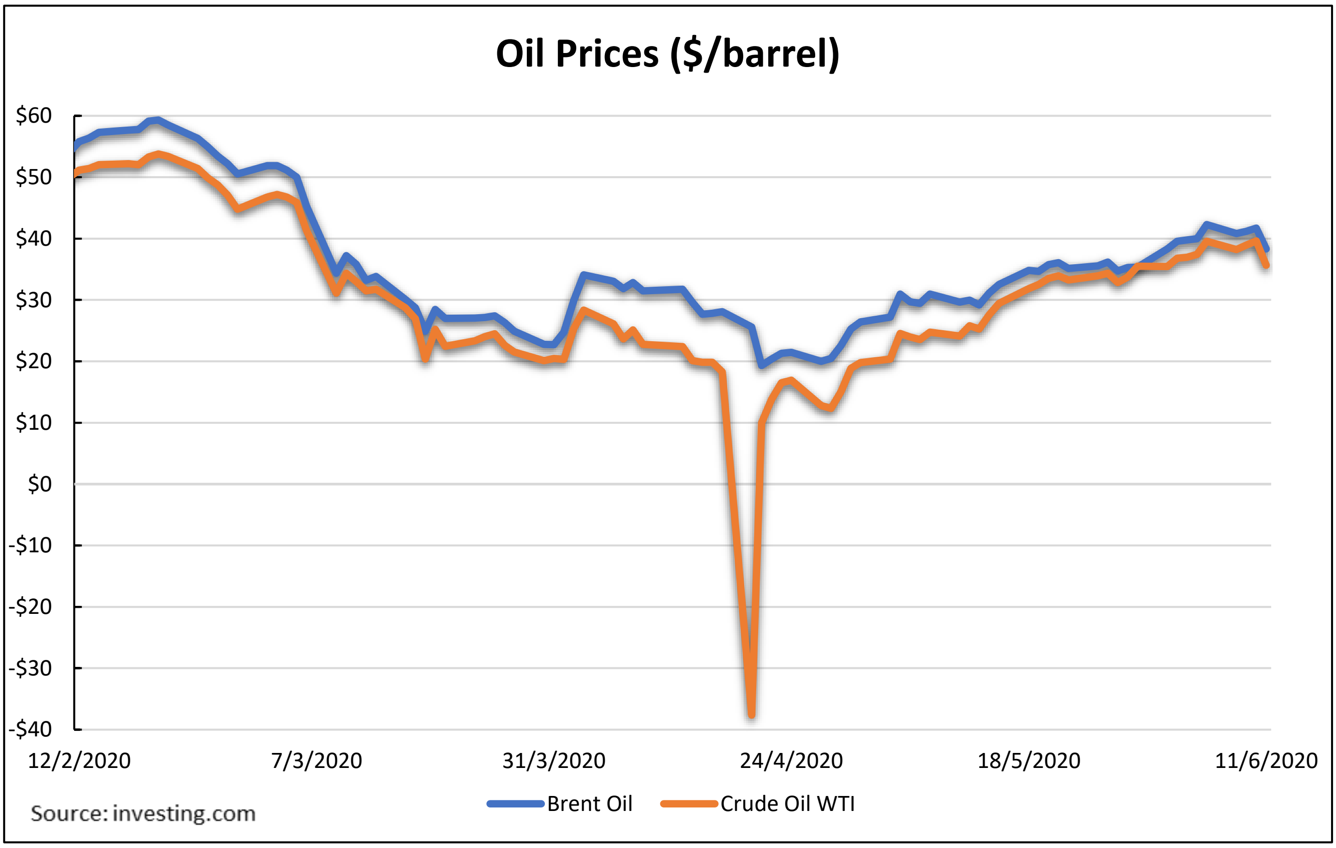


* % Change 9-11/6.

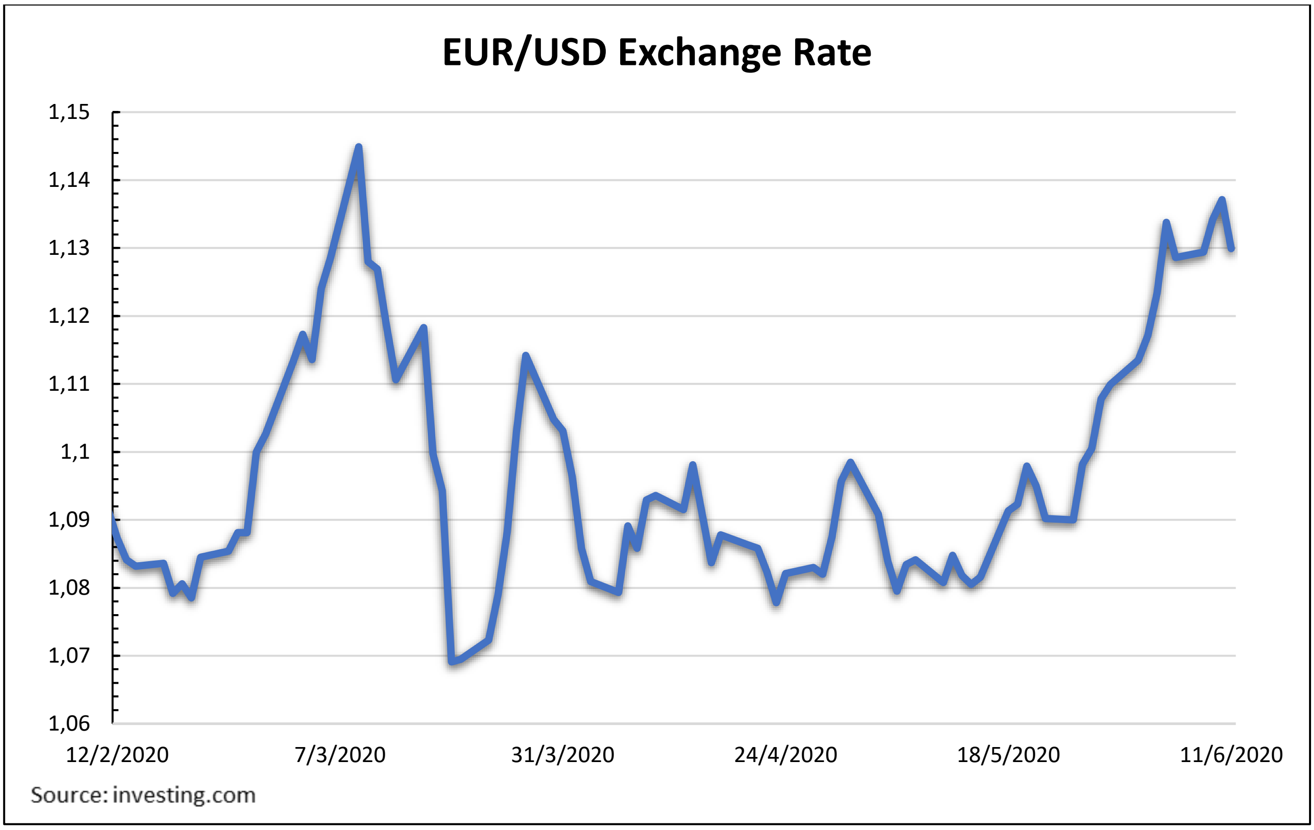
Both Wall Street and European indices fell sharply on Thursday. Investors reacted to fears over a second wave of coronavirus which may hurt more the already weakened global economy.



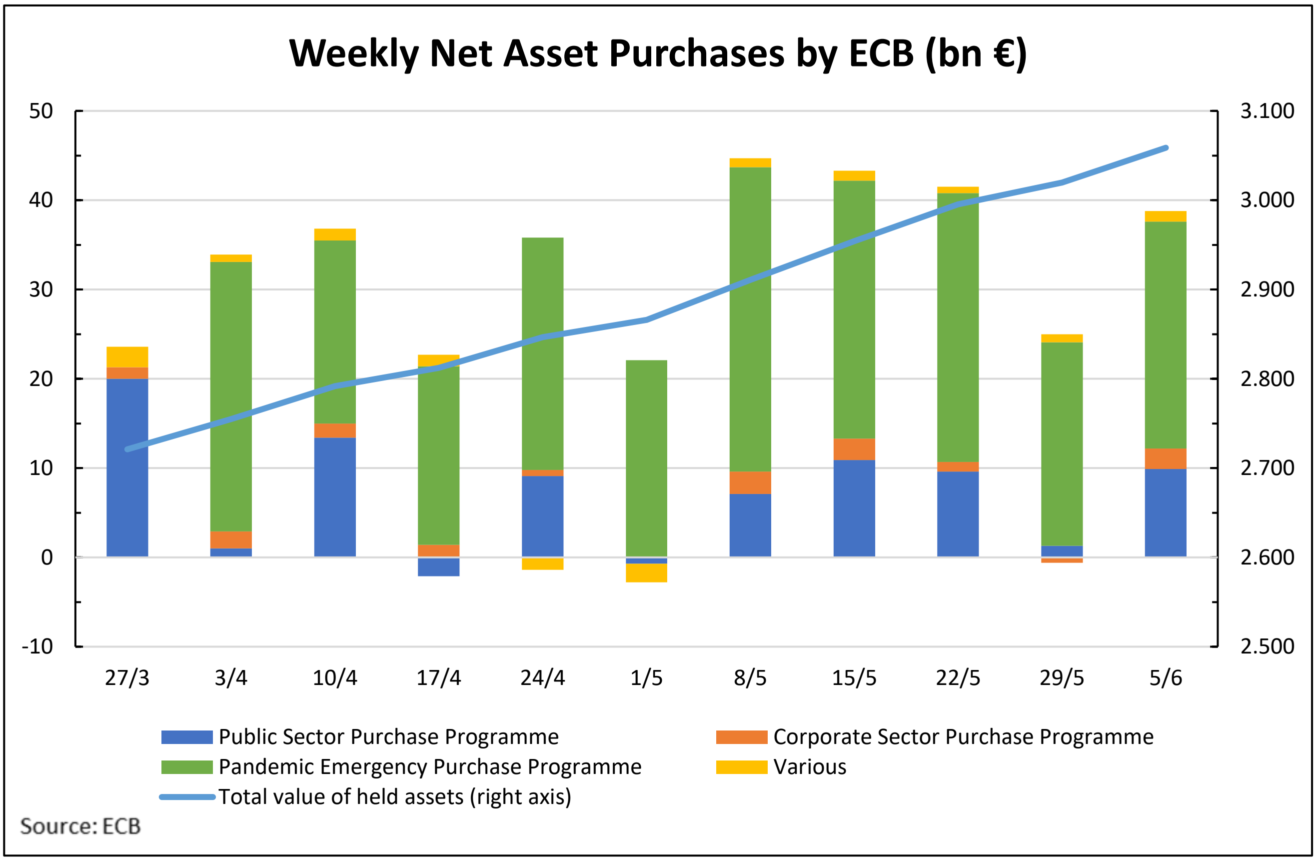
European government bond yields for both the core and periphery countries fell this week. Greek bond yield dropped below Italian yields on Wednesday.



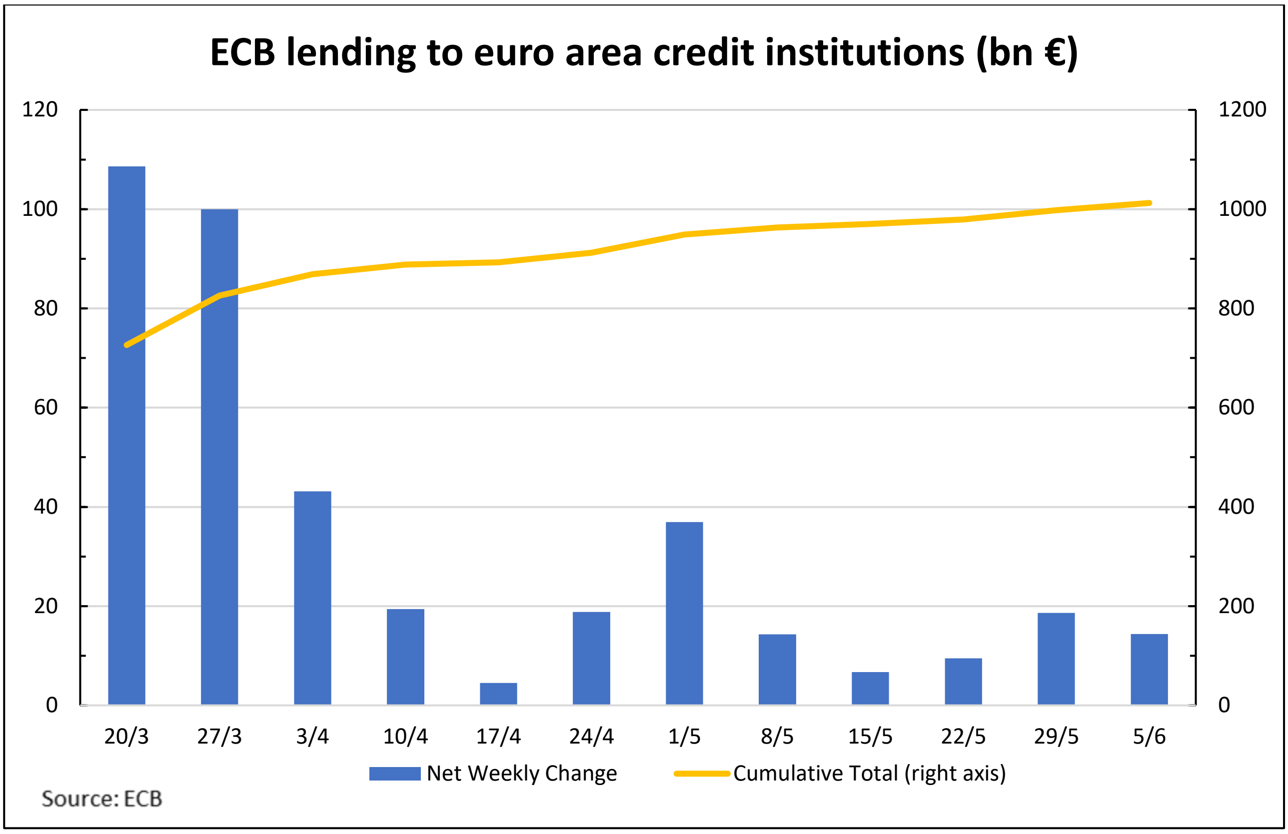
Oil prices settled lower on Thursday with the international benchmark Brent trading at $38.33 per barrel and the American benchmark WTI at $35.66 per barrel.



In the foreign exchange market, exchange rate fluctuations were observed this week, with EUR/USD exchange rate currently at 1.1299 $/€.



On 18/3, the ECB announced a new asset purchase programme (PEPP) totaling €750 bn. Furthermore, the ongoing APP, which is in force since October 2014, was boosted on 12/3 with an additional envelope of €120 bn. The bars represent weekly net asset purchases per programme whereas the line represents the weekly evolution of the cumulative value of all assets held by ECB as part of all past and current asset purchase programmes.



On March 12, 2020, the ECB announced a package of measures, easing terms on providing loans to banks through the TLTRO III programme. The package included the reduction of the interest rate of the programme from June 2020 and the increase of the lending limit for credit institutions effective immediately. In this direction, a further easing regarding conditions on accepting claims and other assets as collateral was announced on April 7, 2020.

In Focus

Commentaries, analyses, forecasts on the economic dimensions of the pandemic

Europeans afford to be optimistic, Erik Jones argues. There are two recent promising initiatives: the agreement within the German grand coalition government to add €130 billion to its fiscal response to the economic consequences of the pandemic and the ECB's decision to add €600 billion to its pandemic emergency purchase program, to extend that program to June 2021, and to maintain or rollover any holding in that program through 2022. Even if they turn out to be partly inadequate, those policies show that **Europe's leaders have mastered the lessons from the last crisis and are determined to respond to the current crisis in an effectively coordinated fashion**. The first lesson is that German fiscal stimulus is good for European macroeconomic performance, the second is that the ECB is here to close the spreads and the third lesson is that there is no substitute for effective policy coordination. As long as Europe's leaders continue along this path, they should be able to rise to the occasion.

Nevertheless, this optimism is not omnipresent. Daniel Gros on Project Syndicate argues that the interpretation of the recent Franco-German proposal for a European Recovery Fund to be financed by bonds issued by the EU, as the bloc's 'Hamiltonian moment' is misleading. A closer look reveals that **the equation 'Hamilton = Eurobonds now' does not hold**, for three reasons. First, whereas the US states had incurred most of their debts in a common cause, i.e. the war against Great Britain, that is not true of today's EU member states. COVID-19 does not qualify as a common enemy – the additional debt that most governments will incur to keep national economies afloat during the pandemic will be large, but it will constitute only a fraction of their total debt. Second, the US states' wartime debts were not repaid in full by the federal government, because the portion owed to private creditors was substantially restructured before the federal government assumed them. But a restructuring of EU member states' existing debt today is out of the question. Third, the federal government's assumption of Hamilton's state debts was unavoidable, partly because the main source of government revenues also had been transferred to the federal level.

Concerns also arise regarding Next Generation EU, the new recovery mechanism proposed by the European Commission. According to Zsolt Darvas of Bruegel, because of hurdles in designing and approving EU programmes, **less than a quarter of the Next Generation EU payments is expected to be spent in the next two and a half years**, when recovery needs will be greatest. Well-functioning financial markets could help bridge the gap between the urgent recovery needs and the backloaded EU budget pay-outs, as countries could borrow and spend immediately to support their economic recoveries and the EU funds could be used when they will be available, hence allowing countries to borrow less later. Still, it is crucial to frontload EU payments to support economic recovery.

The legal status and political efficacy of the Eurogroup have also been questioned in recent times. It is not a formal decision-making institution of the EU, but it has influence, and at times of financial crisis it has shaped policy. Yet it is not a reliable substitute for economic government, lacking the tool of fiscal policy and being subject to criticism regarding weak democratic accountability. Nevertheless, the need for the Eurozone finance ministers to meet regularly in a relatively discreet and informal setting is undeniable. Following Centeno's resignation, Andrew Duff of the European Policy Centre argues for breaking with precedent and **appointing a senior member of the European Commission as president of the Eurogroup**, i.e. Paolo Gentilloni. As the EU moves closer to accepting the need for a common fiscal policy to boost economic recovery from the pandemic, the position of the Commission becomes central. The proposed Economic Recovery Fund, financed by common bond issuance, creates the nucleus of a proper EU treasury beyond previous funds, such as the European Stability Mechanism, which rests on an intergovernmental basis.

The COVID-19 crisis has also highlighted weaknesses in Europe's medical supply chains, particularly its reliance on imports from China and elsewhere. However, according to Sam Lowe of the Center for European Reform, **making European companies move their production to the EU is not the solution**, as it would drive prices higher. The EU's main priority should be increasing regulatory co-operation with its trade partners, such as China and the UK, so that imports during an emergency meet EU safety standards. Moreover, the EU should expand its stockpile of medical equipment, and the European Commission should be responsible for releasing supplies to countries in need. All in all, there is much that can be done to strengthen Europe's medical supply chains and avoid future shortages – forcing firms to move their production to the EU is no panacea.

Another challenge that the EU has to face concerns the international status of the euro, especially since the euro crisis. Faced with a US administration willing to use its hegemonic currency to extend its domestic policies beyond its borders, Europe is reflecting on how to promote its currency on the global stage to ensure its strategic autonomy. Historically, countries issuing dominant currencies have been characterised by a large and growing economy, free movement of capital, a willingness to play an international role, stability, an ability to provide a large and elastic supply of safe assets, developed financial markets, and significant geopolitical and/or military power. The European Monetary Union does not meet all these criteria. **The only way for the euro to play a major international role is to improve the institutional setup of the EMU**, according to Grégory Claeys and Guntram Wolff of Bruegel. In particular, the supply of euro-denominated safe assets should be increased. With its new purchase programme, the ECB has ensured that euro-area sovereign bonds retain their safe asset status, while Eurogroup decisions also increase the supply of common European safe assets. The European Commission's proposal to issue up to €750 billion in EU debt to finance its recovery plan is a step in the right direction.

Another front, where this 'status war' is fought, is currency swap lines. The ECB is part of a closed network of major central banks which have unlimited swap lines among themselves. Over the recent years, it has also agreed to provide euro swap lines to other smaller central banks. Nevertheless, according to Daniel Gros and Angela Capolongo of the Centre for European Policy Studies, the ECB did not make as extensive a use of its swap lines as the Federal Reserve, which enhanced the role of the dollar as the dominant reserve currency. However, **one should not expect much impact on the international role of the euro even if the ECB offers similar currency swap lines**. Currency competition is not won by competing on the generosity of currency swap lines, since establishing swap lines is in the self-interest of the home country of a currency already widely used internationally.

Can the EU Emissions Trading System (ETS) weather the impact of COVID-19, wonder Milan Elkerbout and Lars Zetterberg in a policy contribution at the Centre for European Policy Studies. In the previous economic crisis, the carbon price in the EU ETS dropped to very low levels as supply-demand imbalances increased. Today, the Market Stability Reserve (MSR) operates to prevent significant allowance surpluses from accumulating. Besides calibrating the MSR parameters there is also the option of introducing alternatives such as a carbon price floor, as suggested recently by France and Germany. That would offer the benefit of **a more stable carbon price to guide investments**, yet agreeing on an appropriate level may require significant political capital.

The Just Transition Fund (JTF), one of the three pillars of the Just Transition Mechanism, aims at providing assistance to EU territories most negatively affected by the transition to a climate-neutral economy. Given the socio-economic strain caused by the COVID-19 crisis since the mechanism was unveiled in January 2020, the European Commission proposed last month three amendments to the JTF proposal: a) a fivefold increase in the size of the JTF from €7.5 billion to €40 billion; b) adjustments to the pre-allocation method – the maximum pre-allocation for a country is capped at €8 billion instead of €2 billion and the minimum pre-allocation is set at €32 of a country's per capita aid intensity over the whole period, instead of €6; c) amended mandatory transfers from other structural funds. Nevertheless, Aliénor Cameron et al. of Bruegel argue that **the Commission's amendments to the Just Transition Mechanism are too timid a step**. They put forward three proposals: a) amend the scope of project eligibility under the JTF; b) simplify and refocus the allocation methodology; c) change the pre-allocation method to capture more granularity.

At the same time, G20 leaders must agree on measures that mitigate the impact of the COVID-19 crisis on the world's most vulnerable people, according to Erik Berglöf et al. on Project Syndicate. The poorest countries in Africa, Asia, and Latin America are facing economic and public-health emergencies that demand immediate action. A global recession could reverse up to three decades of improvements in living standards and, according to one estimate, push 420-580 million people worldwide into poverty. It is clear that **G20 leaders must do more**. First, debt relief for the 76 International Development Association countries needs to be scaled up radically to include relief by bilateral and private creditors until the end of 2021. Second, the G20 should agree that $2.5 trillion of needed support will be provided. All of this makes imperative a fresh emission of Special Drawing Rights – the IMF's global reserve asset. Last but not least, to raise vital revenues for national governments, world leaders should agree on a coordinated strategy to recover money lost to tax havens.

After all, if deglobalization goes too far, no country will be spared, argues Kenneth Rogoff on Project Syndicate. The post-pandemic world economy seems likely to be a far less globalized economy, partly because governments increasingly recognize that they need to consider public health as a national security imperative. Thus, the risk of a 1930s-style deglobalization is very likely, especially if the US-China trade war continues. The result will not be just slower growth, but a significant fall in national incomes for all economies. **Even the US could suffer a significant decline in real GDP as a result of deglobalization**. The current abundant demand for dollar assets depends heavily on the vast trade and financial system that some US politicians aim to shrink. It is true that the current model of globalization needs adjustments but building resilience does not mean tearing the whole system down and starting all over again.

Having as a springboard the killing of George Floyd, massive uprisings have taken place. But why now, asks Barry Eichengreen on Project Syndicate. A convincing explanation of the phenomenon must take under consideration the pandemic. **African Americans are especially vulnerable to the crisis, facing higher mortality and unemployment rates than white Americans, while also lacking social protection**. Nevertheless, in the European context, this disparity is not prevalent. Eichengreen mentions the statement of the European Commission Vice President, Margaritis Schinas, dismissing the probability of a policing crisis in Europe, where countries are equipped with strong welfare systems.

ELIAMEP experts write

"We have invested countless hours flagging Europe's dysfunctions, the slowness of decisions, the difficulty of reforms, the distortions of outdated social welfare systems. But let us recognize a superiority in the balance produced by the European democracies. That is in the ongoing effort to integrate the lost and the outsiders, to alleviate the extreme inequalities committed by the European welfare state. Today's drama of Trump's America is a reminder of the value of Europe as well as the values of a liberal America. Around which we urgently need to reconvene. "

George Pagoulatos, Director General, ELIAMEP, *Kathimerini, 07.06.2020*

"In the spring of 2020, the comparatively successful Greek management of the first wave of the pandemic provides lessons in the handling of the next wave, while the negative effects on unemployment and poverty levels have not yet swelled. However, according to estimates by the Hellenic Federation of Enterprises, unemployment for the whole of 2020 will rise to 20% (from 17% in 2019). Meanwhile, in the first four months of 2020, the public deficit is 1.5 billion euros. Greece remains among the EU's weakest countries in terms of care and housing for the elderly, the most vulnerable group to the coronavirus. "

Dimitris A. Sotiropoulos, Senior Research Fellow, ELIAMEP, *Kathimerini, 06.06.2020*

"According to data from the Online Labour Index of Oxford, in developed economies, between 2016 and 2019, there was an increased demand for external partners of companies, independent 'ultra-contractors' and freelancers working through the Internet, as part of the so-called 'gig economy'. Employment in the gig economy is not necessarily occasional, since this is how entrepreneurs and self-employed people become active with a more or less constant amount of orders. In Europe, the increase in the gig economy employment was lower than in the US, but it is still evident."

Dimitris A. Sotiropoulos, Senior Research Fellow, ELIAMEP, & **Asteris Chouliaras,** *diaNEOsis, 06.06.2020*

"By no means can there be a simplistic reduction of current affairs. June 2020 in the USA is not December 2008 in Athens. Black Lives Matter supporters are not the Yellow Vests of the United States. We are talking about different countries, societies, political systems and police that operate with different rules. But there is a common component, the polarization of Western societies. In fact, the beginning of the 21st century can be argued to be the period of polarization."

Triantafillos Karatrantos, Reseacher, ELIAMEP, *TA NEA, 11.06.2020*

"Daring is the proposal to finance the new scheme through the - temporary - increase of the limit of the EU's own resources and through the issuance of bonds by the Commission, which represent a real rupture with the status quo. At the other end of the scale is the Commission's choice to keep the "main" MFF almost unchanged: a brief look at the Table is enough to reveal that the 2020 proposal differs little from the 2018 proposal in terms of the height and structure of the expenditure of the MFF."

George Andreou, Researcher, ELIAMEP, *capital.gr, 11.06.2020*